HANMOORE
FINANCIAL SOLUTIONS

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Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss

* Diversification - why it matters now more than ever
* The Australian economy and recovery from COVID19
* Gifting and financial generosity during coronavirus

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,

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Diversification – why it matters now more than ever

If you're an investor (or considering becoming one), some essentials are important to know, and of these, few are more important than diversification. Diversification is a way of spreading the risk associated with investments, or more simply, not putting all your eggs into one basket.

And while diversification is an investment fundamental, it's when markets become stressed, such as during the current COVID-19 pandemic, where understanding it, becomes valuable.

Why diversification is important

Diversification is important because not all investment types provide the same investment returns at the same time. For example, one type of investment might be producing strong returns while another is performing poorly. Having a diversified investment portfolio can help to smooth out these peaks and troughs, with the aim to hopefully generate more consistent investment returns.

Even during a time of major economic upheaval, when the returns produced by all investment types are affected, having a diversified investment portfolio could help to limit your losses as not all investments will experience the same falls.

Types of investments

Aside from shares and property, other potential types of investments include cash (in the form of term deposits) and fixed interest (bonds issued by governments or companies). They all carry different levels of risk and offer differing levels of investment returns, with generally, higher risk investments offering higher returns compared to lower risk investments.

How to diversify your investments

It's important to remember there are risks attached to investing as returns aren't guaranteed. You could make money, break even, or even lose money should your investment decrease in value. When doing your research keep in mind past performance is not a reliable indicator of future performance.

One of the simplest ways of diversifying your investments is by investing in several different asset classes rather than just one, if you're financially able to do so. For example, buying shares, an investment property and investing some money into a term deposit.

You could diversify your share portfolio by buying shares in different companies that operate in different sectors and locations. Or invest in exchange-traded funds (EFTs), which are a mixed group of shares that make up an index, such as the ASX200.

Investing in a downturn

If you're thinking about taking advantage of the current market downturn to start or expand your investment portfolio, remember that while lower asset prices do create opportunities for increased returns, the economic uncertainty also means that prices could fall further. Before taking any action there are several things you should consider, including:

- how much you can afford to invest
- your risk appetite
- your investment timeframe
- how you'll diversify your investments.

One option is to enter the investment markets gradually, for example by investing a certain amount each week, fortnight or month to help diversify against the risk that assets prices fall further.

Contact us if you would like to review your investment portfolio or if you are thinking of investing at this time and we can help you to maintain the appropriate level of diversification.

The Australian economy and recovery from COVID-19

Dr Shane Oliver - Head of Investment Strategy and Economics and Chief Economist, AMP Capital

The shutdown in response to COVID-19 (coronavirus) has wreaked havoc on the economy, but after a period of free-fall we could be beginning to see light at the end of the tunnel.

What has the impact been on consumer confidence and spending?

Consumer confidence collapsed due to uncertainty around how long the economic shutdown would last, what the damage would be, how great the health threat was and what it would mean for wages and jobs. But confidence has since recovered a bit.

Despite an initial boom in retail spending due to stockpiling of groceries, toilet paper and home office supplies, shopping centres are now deserted, so retail sales are probably down by around 20%, although online sales appear to be a bright spot.

How similar (or different) is this to other financial crises in recent history?

In terms of the shrinking Australian economy, as measured by gross domestic product (GDP) and rising unemployment, this is going to look most like the Great Depression of the 1930s. However, that was a boom then bust scenario, so this doesn't really resemble anything we've seen in the past 100 years. Once the shutdowns are eased, economic conditions should bounce back far quicker than they did after the Great Depression or after past recessions.

What impact is the relaxing of isolation rules in some parts of Australia having?

It's very positive news that the shutdown, which we were originally told might last at least six months, may now only last for two months, and is part of the reason consumer confidence has picked up a bit lately. While so far, the easing of rules has been more related to social interactions and freedom of movement, we expect other, more economically significant easing will occur in the coming weeks.

What long-term impact will the government stimulus packages have on the Australian economy?

The long-term cost is that our level of public debt relative to the economy will double, so either we accept a much higher level of public debt or we try and pay it down – to do that the government will either raise taxes or cut spending. But if the government had stood by and done nothing, we'd have much higher unemployment and the hit to economic activity would last for much longer. And our level of public debt is starting from a much lower level than in the US, Europe or Japan.

What impact will other factors such as the fall in oil prices and the fall in value of the Australian dollar have on our economic recovery?

So far, the fall in the oil price has been seen as a negative due to the impacts on large oil producers. But once the lockdowns are eased and we're driving around again it will be positive as Australian households could be saving up to $25 a week on petrol. Historically, lower oil prices have gone hand-in-hand with low interest rates to fuel economic recovery – and interest rates in Australia are unlikely to rise for the next three to four years.

The Australian dollar started the year at 70 cents against the US$, fell to a low of 55 cents and is now around 64 cents, but that will help the economy. It makes our exports more competitive internationally and is particularly good for our natural resources exporters who get paid in US$.

What will the impact of COVID-19 be on Australian house prices?

House price growth has slowed down and listings have dried up due to the uncertainty. The JobKeeper payments introduced by the Federal Government and loan repayment holidays offered by the banks have delayed the hit to the property market, but with unemployment heading higher, there will be some distressed sales and impact on prices.

It will depend on how quickly the economy recovers after the six-month stimulus and mortgage payment freeze period ends as to whether we see a 5-10% hit to house prices or whether it's more like 20%. Our base case is for a 10% fall assuming a return to economic growth through the second half of the year.

Will the economy, or the way we work, be permanently changed as a result of the current downturn?

It's unlikely bans on international travel (except to NZ) will be lifted before there's a vaccine, which will affect airlines, accommodation providers and tour operators. However, the impact will be cushioned by a rise in domestic travel as Australians holiday at home. In fact, we have a tourism trade deficit with the rest of the world, so the absence of international travel will benefit Australian GDP (in the short term).

Work-related travel may also be permanently affected, as businesses are now using technology to effectively communicate with interstate and overseas offices. Work from home arrangements are also likely to be more widely embraced affecting demand for office space but reducing traffic congestion.

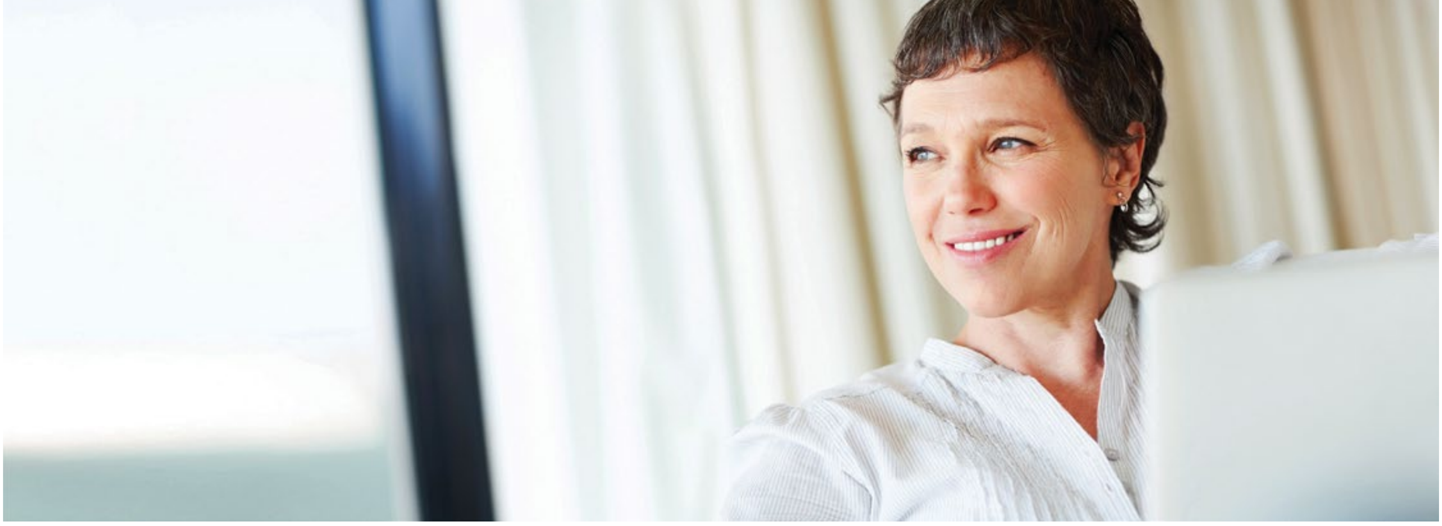
Retail may be permanently damaged as the shift away from bricks and mortar retailers to online retail has been accelerated, and universities that rely on international students may struggle for a while yet.

There's also talk of reforms to help the economy grow faster. This could include things such as tax reforms, improving the industrial relations system and reducing regulation to make it easier for companies to start and operate.

How long will the Australian economy take to recover?

We at AMP Capital predict that the high point for Australian economic activity as measured by GDP looks to have been the last quarter of 2019 and it's projected to shrink 10-15% by the middle of 2020. But once workplaces are able to start re-opening, which is likely from this month onwards, economic activity will pick up and growth will occur through the second half of 2020. It will probably take about 18 months to get back to our recent highs, so a full recovery is unlikely before the end of 2021.

Unemployment was 5.2% in March and will probably be around 10% by mid-2020. It will take longer to fall as some companies will use the current crisis as an opportunity to cut their costs, and by the end of 2021 it will probably be around 7%.



Gifting and financial generosity during coronavirus

Are you thinking of giving or lending money to adult children (or other family members) who are in financial hardship?

Parents are often called on to help during times of crisis. Now, with a growing number of people experiencing financial hardship as a result of the coronavirus pandemic (COVID-19), there's an increased chance that parental assistance might extend to financial support.

Money can be a very emotional thing, particularly when you get family involved. The reality is, we all want to help our kids and our first instinct is to provide assistance if they're in need. We just need to do so prudently.

If you're considering giving or lending money during the COVID-19 crisis, here are some things to think about.

Exceeding gift limits to children may affect your Age Pension

The current Age Pension rules allow you to gift up to $10,000 per financial year, to a total of $30,000 over a rolling five-year period[i]. For instance, you may choose to take a lump sum from your retirement savings to do this.

If you give away amounts above these limits, the excess will still be counted as an asset of yours, and subject to deeming under the income test for 5 years, so you may not receive the increase in Age Pension that you might otherwise expect.

This means you can't give away $100,000 and then suddenly go on the full Age Pension. The limits allow people to be generous, but at the same time not artificially qualify for a higher Age Pension as a result of giving all their money away.

Explore financial hardship assistance before giving

COVID-19 hasn't altered any of the current rules regarding giving, but it has opened up more options for people in financial hardship, which may prevent the need for assistance in the first place.

Your children [now] have access to a lot of avenues for financial assistance before they need to draw upon the bank of Mum and Dad. Have they applied for the JobSeeker payment?

Your children may also be able to access money from their superannuation[ii]. They need to do this with care, but it's another avenue that your children may have available.

There's also more affordable access to education[iii] for upskilling and additional measures for rental relief. It might be worthwhile exploring these options if your children are experiencing financial difficulties before you turn to giving.

Setting boundaries if you do help out

If you're thinking about giving money you should be prepared to communicate clearly. You want to make sure that everyone is really, really clear: the money that I'm providing to you, is it a loan or is it a gift? Communication and clarity are absolutely vital. If it's a loan, set clear expectations about how and when it will be paid back.

If you don't have a formal legal contract, it's important to retain emails or text messages that state your intentions, including the payment arrangement.

It's also important to note, if it's a loan, Centrelink will treat it differently to a gift. While the gifting limits discussed above will not apply, the outstanding balance of a loan will be counted as an asset. Further, the outstanding balance will be treated as a financial investment and subject to the Centrelink deeming under the income test until it is repaid.

Keeping things fair

If you have more than one child and you're only providing financial assistance to one of them, you may want to give some thought to how you're going to respond to another child saying, 'You helped Jenny, can you help me?'

It's important to think about whether each of your children needs help. Or if you could prepare an explanation as to why you're only extending financial generosity to one family member.

Additional considerations

When making a decision about gifting or loaning money, it is important to bear in mind:

- That you'll be foregoing the opportunity to earn any income or potential growth from the amounts you'll loan or give away
- That there may be implications to your estate planning to consider
- Any potential tax implications or costs you may incur if you need to sell assets to raise the gift or loan amount.

We can help

Before making any decisions, it may help to speak to us – we're here to help you manage the effects of COVID-19 on your financial situation.

i Services Australia, How much can you gift

ii Australian Taxation Office, COVID-19 early release of super

iii Department of Education, Skills and Employment, Higher Education Relief Package